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Supervisor Gloria Molina
Supervisor Mark Ridley-Thomas
Supervisor Zev Yaroslavsky
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FROM: Wendy L. Watanabe
Auditor-Controller

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for*

SUBJECT: **PROBATION DEPARTMENT – CASH HANDLING, TRUST FUNDS,
ACCOUNTS PAYABLE, AND COMMITMENTS REVIEW**

As part of the Auditor-Controller's (A-C) ongoing responsibility to ensure the County's resources are safeguarded, and that departments comply with County fiscal policies and procedures, we are reviewing County departments' controls over cash handling, trust funds, accounts payable, and commitments. We have completed a review of the Probation Department (Probation or Department). Our review included interviews with Probation management and staff, reviewing controls over cash, examining trust fund records, and analyzing commitment and accounts payable balances. We also reviewed Probation's accounting records to evaluate controls over trust monies related to juvenile reimbursements, fines and restitutions, and donations, as required by California Welfare and Institutions Code Chapter 2, Section 275(b), for Fiscal Years 2010-11 and 2011-12.

Summary of Findings

Probation generally uses trust funds for appropriate purposes. However, Probation needs to strengthen its controls over cash handling, trust funds, commitments, and accounts payable. The following are examples of areas for improvement:

- **Probation needs to improve accountability over payments received.** Probation clients drop off payments in sealed envelopes at Probation field offices, either in a locked box, kiosk, or at the front counters. Probation staff forward the unopened envelopes to the Treasurer and Tax Collector (TTC) for

processing. However, Probation does not have a mechanism to ensure all payment envelopes are accounted for and forwarded to TTC.

Probation's attached response indicates that the Department will establish controls for counting, logging, and tracking payment envelopes.

- **Probation should ensure that minors' personal monies are deposited promptly into the trust fund.** County Fiscal Manual (CFM) Section 1.3.7.1 requires departments to deposit collections of \$500 or more by the close of each business day, or deposit collections less than \$500 at least weekly. Two (40%) of the five collections we reviewed, totaling \$1,978, were deposited approximately two weeks after the money was collected from the minors.

Probation's attached response indicates that the Department will remind staff to ensure minors' personal monies are deposited timely.

- **Probation should consult with County Counsel to determine if the Department can continue to accept donations intended for staff from an attorney who represents minors under the Department's care, and if so, whether Probation needs to take steps to avoid a real or perceived conflict of interest. Probation should also obtain written documentation from donors if donations are intended for staff.** The juvenile hall we visited during our review receives donations intended for staff appreciation events from an attorney who represents juveniles under the Department's care. Because both the attorney and Probation staff perform certain functions that affect the outcome of the juveniles' cases, accepting these donations creates the appearance of a conflict of interest. In addition, Probation did not always have written documentation from donors that donations were intended for staff, as required by CFM Section 2.4.4.

Probation's attached response indicates that the Department will work with County Counsel to determine the proper disposition. Probation's response also indicates that they will provide instructions to staff to obtain written documentation from donors for any gifts intended for staff. We believe that Probation also needs to establish a departmental policy to ensure staff obtain written documentation from donors.

- **Probation needs to improve controls over revolving funds and ensure shortages are reported timely.** We noted that Probation had revolving fund shortages totaling \$3,590, some of which dated back several years, that had not been reported to the A-C's Office of County Investigations (OCI) as the CFM requires. Probation needs to increase management oversight over revolving funds to ensure all revolving fund monies are accounted for, and any shortages are reported timely to OCI.

Probation's attached response indicates that the Department will ensure that revolving fund monies are accounted for and will report shortages to OCI in a timely manner.

- **Probation should refer unclaimed funds to TTC for proper disposition.** Monies that have remained unclaimed in the County's custody for more than three years are considered unclaimed funds, and should be referred to TTC. Probation indicated that they had unclaimed funds, totaling approximately \$763,000, in two trust funds as of June 30, 2013. Probation did not refer the unclaimed funds to TTC as required, even though some of the monies had been on deposit for more than ten years.

Probation's attached response indicates that their Fiscal Services Section and Collections Unit will review unclaimed funds in the trust accounts to identify the appropriate disposition and refer any remaining unclaimed funds to TTC.

- **Probation needs to maintain subsidiary ledgers for each trust fund, and reconcile the balance per the subsidiary ledgers to eCAPS.** Probation did not maintain subsidiary ledgers for three (50%) of the six trust funds reviewed. For a fourth trust fund, there was a \$6,155 variance between the balance per Probation's subsidiary ledgers and the balance used to perform the reconciliation.

Probation's attached response indicates that Fiscal Services Section staff have been trained on procedures for reconciling subsidiary ledgers to eCAPS.

- **Probation needs to comply with CFM requirements for establishing and canceling commitments.** Seven (70%) of the ten commitments reviewed, totaling \$1.6 million, should have been cancelled because they were no longer needed. Cancelling the commitments would have resulted in the funds being returned to the County General Fund and made them available for future appropriation by the Board of Supervisors.

Probation's attached response indicates that Fiscal Services Section will establish and cancel commitments, as required.

Details of these and other findings and recommendations are included in the attached report (Attachment I).

Review of Report

We discussed the results of our review with Probation management. The Department's attached response (Attachment II) indicates general agreement with our findings and

describes actions they have taken or plan to take to implement the recommendations in our report.

We thank Probation management and staff for their cooperation and assistance during our review. Please call me if you have any questions, or your staff may contact Robert Smythe at (213) 253-0101.

WLW:AB:RS:TK

Attachments

c: William T Fujioka, Chief Executive Officer
Jerry E. Powers, Chief Probation Officer
John F. Krattli, County Counsel
Mark J. Saladino, Treasurer and Tax Collector
Audit Committee
Public Information Office

**PROBATION DEPARTMENT
REVIEW OF CASH HANDLING, TRUST FUNDS, COMMITMENTS,
AND ACCOUNTS PAYABLE**

Background

The Probation Department's (Probation or Department) Budget and Fiscal Services Office is responsible for overseeing the Department's cash collections, trust/revolving funds, commitments, and accounts payable. As of June 30, 2013, Probation had \$12.8 million in 14 trust funds. Probation also had \$20.2 million in commitments to pay for goods and services that were ordered or contracted for, but had not been received by the end of the fiscal year (FY), and \$272,049 in accounts payable for goods and services that had been received but not paid for by the end of the FY. Probation also received approximately \$11.3 million in payments for fines and fees during FY 2012-13.

Scope

We reviewed Probation's compliance with County Fiscal Manual (CFM) requirements for cash handling, trust/revolving funds, commitments, and accounts payable. We also reviewed Probation's accounting records as required by California Welfare and Institutions Code (WIC) Chapter 2, Section 275(b), for FYs 2010-11 and 2011-12, to evaluate controls over trust monies related to juvenile reimbursements, fines and restitutions, and donations. Our review included interviews with Probation management and staff, and tests of Probation's records.

Cash Handling

Collections are funds received by departments as payment for fees, services provided, or monies to be held in a trust fund, and generally include cash and cash equivalents such as personal and cashier checks or money orders. Probation receives various types of collections including donations, payments for various fines and fees, and personal monies obtained from detained minors for temporary safekeeping.

Controls over Payments Received

CFM Section 1 requires that all collections be receipted promptly through the use of a cash register, departmental receipt, etc. CFM Section 1 also requires departments to have adequate security over cash, including checks on hand, at all times, and to limit access to areas where cash is stored. In addition, two employees should open payments received through the mail and make a listing of all monies received.

As noted above, Probation receives payments from clients for various fines and fees. Clients may submit their payments online, by mail, or at 12 area offices located throughout the County. During FY 2012-13, Probation received approximately \$11.3 million in payments for fines and fees.

Probation's area offices have locked boxes and kiosks for clients to drop off their payments in sealed envelopes. Probation staff retrieve the envelopes from the kiosks and locked boxes daily, and forward the unopened envelopes to the Treasurer and Tax Collector (TTC) for processing. We evaluated the payment collections process at two area offices and noted the following:

- **Receipts not issued to clients** – At one of the two offices we visited, clients submit payment envelopes at the front counters instead of dropping off the payments at a kiosk. Staff at the front counters do not issue receipts to acknowledge receipt of these payments. Although staff do not open the envelopes and do not know the payment amount, to improve accountability over collections, Probation should require staff receiving payment envelopes to issue receipts to acknowledge that the envelopes were received.
- **No record of payment envelopes received** – Staff at the two offices we visited do not maintain any record of payment envelopes received, whether retrieved from kiosks and locked boxes or received directly by Probation staff at front counters. Probation should develop a mechanism to ensure all payment envelopes received are accounted for and forwarded to TTC.
- **Locked box and kiosk payments not retrieved by two employees** – At both area offices, we noted that only one employee retrieves the payment envelopes from the locked boxes and kiosks. This could allow staff to withhold a payment without anyone knowing. Probation should require two employees to retrieve collections from the locked boxes and kiosks. The two employees should also record the number of envelopes retrieved.
- **Inadequate security over collections** – At both offices, we noted that payments were not kept in a secure location. At one office, payment envelopes received at the front counters were kept on a desk that was accessible to all employees throughout the day. In addition, although staff indicated they store the payments in a locked drawer overnight, approximately 28 staff have a key to the drawer. We also noted that, at both offices, staff leave the package containing payment envelopes unattended in the mail room while waiting for the Internal Services Department messenger to pick it up. Probation management should ensure collections are stored in a secure area at all times and restrict access to as few individuals as needed.

Recommendations

Probation management:

1. **Require staff that receive payment envelopes directly from clients to issue receipts to acknowledge that the envelopes were received.**

- 2. Develop a mechanism to ensure all payment envelopes received are accounted for and forwarded to the Treasurer and Tax Collector for processing.**
- 3. Require two employees to retrieve payment envelopes from the locked boxes and kiosks, and to record the number of envelopes retrieved.**
- 4. Ensure collections are stored in a secure area at all times and restrict access to collections to as few individuals as needed.**

Minors' Personal Money

Probation staff collect personal property for temporary safekeeping from minors when they are admitted into the juvenile halls. The items are returned when the minor is released or transferred to the custody of another jurisdiction. All non-monetary items and money less than \$10 are stored onsite. If minors have \$10 or more, staff forward the money to Probation Headquarters for depositing into a trust fund.

CFM Section 1.3.7.1 requires departments to deposit daily collections of \$500 or more by the close of each business day. Daily collections of less than \$500 may be held and deposited when the total reaches \$500, provided that deposits are made at least weekly. CFM Section 1.3.3.1 requires departments to use sequential receipts for collections, and ensure that all receipts are accounted for. In addition, supervisors should initial voided receipts and include a note as to why the receipt was voided.

We reviewed Probation's procedures at one of the juvenile halls. Probation staff indicated that minors' monies are forwarded in a locked money bag to Headquarters for depositing whenever the amount reaches \$100. However, Probation staff indicated that the juvenile hall does not always forward the money to Headquarters on a weekly basis, or when the collections reach \$100, due to a shortage in locked money bags. We also separately reviewed five deposits into the trust fund, and noted that two (40%) transactions, totaling \$1,978, were deposited approximately two weeks after the collection, even though one of the deposits was more than \$500. Probation should ensure minors' personal monies are deposited promptly.

We evaluated the receipting process for minors' personal money at one juvenile hall, and noted that Probation staff used pre-numbered manual receipts to record the items and money obtained from minors during the intake process. However, Probation staff did not review manual receipt books issued to staff to ensure that all receipts were accounted for. In addition, supervisors did not review or initial voided receipts.

Recommendations

Probation management:

- 5. Ensure minors' personal monies are deposited promptly.**

- 6. Require staff to reconcile manual receipt books issued to staff to ensure that all receipts are accounted for, and require supervisors to review/initial voided receipts and include a note as to why the receipt was voided.**

Minors Intake Process

CFM Section 1.1.2 requires departments to enforce strict controls over all phases of the cash handling operations and to limit access to cash such that an individual cannot convert funds for personal use without immediate detection.

As noted above, Probation staff collects personal property from minors during the intake process at the juvenile halls. The items collected include clothing, jewelry, electronics, and cash. At the juvenile hall we visited, we noted that there is usually only one staff present during the intake process. While we did not note any instances of misappropriated funds, the Department can strengthen the internal controls over cash and other valuables collected from minors by having two employees involved in the intake process.

Recommendation

- 7. Probation management consider requiring two staff to collect minors' personal property during the intake process.**

Donations

Probation receives donations at their camps and juvenile halls to fund various programs such as scholarships and departmental programs designated for minors, and staff appreciation events. The Department received approximately \$34,022 in donations during FY 2012-13. Probation uses a donation trust fund to temporarily hold donated funds until they are spent.

Potential Conflict of Interest

The juvenile hall we visited receives donations intended for staff appreciation events from an attorney who represents minors under the Department's care. Because both the attorney and Probation staff perform certain functions that affect the outcome of the minors' cases, accepting these donations creates the appearance of a conflict of interest. For example, Probation staff prepare periodic reports that could be utilized in court, such as reports of incidents that occur while the minor is detained at the juvenile hall. Although nothing came to our attention to substantiate an actual conflict of interest, Probation should consult with County Counsel to determine if they should continue to accept donations from the attorney.

Recommendation

- 8. Probation management consult with County Counsel to determine if the Department can continue to accept donations intended for staff from an attorney who represents minors under the Department's care, and if so, whether Probation needs to take steps to avoid a real or perceived conflict of interest.**

Receipts for Donations

Probation's internal policy requires staff to issue departmental receipts to donors when donations are received. However, at the juvenile hall we visited, we noted that staff do not issue receipts for donations received either in person or through the mail. Instead, the juvenile hall sends a "thank you" letter to the donor, which serves as a receipt. Probation staff also indicated that they receive donations intended for staff appreciation events via cash or checks addressed to employees. Probation also does not issue receipts for these donations. When donations are not promptly receipted, there is an increased risk for misappropriation or misuse. In addition, there is an increased risk for donations made by check addressed to an employee. Probation should ensure staff issue departmental receipts for donations received in person, and require staff to remind donors to address donation checks to the Department.

As noted above, staff at the juvenile hall we visited receive donations for staff appreciation functions. CFM Section 2.4.4 states that donated funds can only be used to benefit County employees if the donor specifically designates in writing, signed by the donor, that the funds are to be used for such a purpose. However, Probation did not always have written documentation from the donor that the donations were intended for staff appreciation. We have no indication that donations intended to be used to benefit minors were used to benefit employees. However, Probation should strengthen its departmental policies to ensure staff obtains proper written documentation from donors for any gifts intended for staff appreciation functions.

Recommendations

Probation management:

- 9. Ensure staff issue departmental receipts for donations received in person, and require staff to remind donors to address donation checks to the Department.**
- 10. Strengthen its departmental policies to ensure staff comply with County Fiscal Manual Section 2.4.4, which requires proper written documentation from donors for any gifts intended for staff use.**

Reporting Donations

Board of Supervisors (Board) policy requires departments to file quarterly reports listing all donations received, regardless of the amount, with the Executive Officer (EO) of the Board.

Probation does file quarterly reports with the EO. However, we noted that the Department did not report non-monetary donations or donations that were intended for staff. Probation management should report all donations received, whether monetary or non-monetary, and regardless of the intended beneficiary.

We also noted that staff at the juvenile hall we visited did not maintain a complete log for all donations received. Maintaining a complete log helps to ensure all donations are accounted for and reported to the EO.

Recommendations

Probation management:

- 11. Ensure the Department reports all donations received, regardless of the amount or intended beneficiary, to the Executive Officer of the Board of Supervisors.**
- 12. Require staff at each location to maintain a log of all donations and gifts received at that location.**

Revolving Funds & Revolving Cash Trust Funds

A revolving fund is a fixed amount of money that departments may use to make change, or for petty cash purchases. Similarly, a revolving cash trust fund is a fixed amount of cash requisitioned from a trust fund to expedite high volume refunds. As of June 30, 2012, Probation had two revolving funds and two revolving cash trust funds. We reviewed Probation's Main Revolving Fund and Wards Revolving Cash Trust Fund, with assigned amounts totaling \$32,855 and \$5,000, respectively. The two revolving funds have sub-assignments that include three checking accounts and over 40 petty cash funds assigned to various offices, juvenile halls, and camps.

Revolving Fund Shortages

CFM Section 1.6.3 states that revolving funds must be kept clear of shortages and overages. In addition, CFM Section 1.6.6 requires departments to report revolving fund shortages to the Auditor-Controller's (A-C) Office of County Investigations (OCI).

During our review, Probation advised us they had nine shortages, totaling \$3,245, in several petty cash sub-assignments. Some of the individual shortages dated back several years, but Probation had not reported them to OCI, as required. Probation

should identify and resolve revolving fund shortages timely, and report shortages to OCI as soon as the shortages are identified.

Probation indicated that three (33%) of the nine shortages, totaling \$794, occurred when staff cashed replenishment warrants, but the cash was not put in the petty cash fund. Probation needs to improve controls over the revolving fund replenishment process to ensure replenishment monies are properly safeguarded and used to replenish revolving funds.

We also noted a \$100 variance between Probation's internal listing of revolving fund sub-assignments and eCAPS. Probation indicated that the variance resulted from a shortage in one sub-assignment. Probation did not report or replenish the shortage, but updated their internal listing to reduce the amount assigned to that location. In addition, Probation was unable to account for the two revolving funds we did not review: the Kirby Center Revolving Cash Trust Fund and Work Furlough Program Revolving Fund, totaling \$220 and \$25, respectively. Probation was unable to determine what happened to the monies since the fund custodians are no longer with the County. During our review, Probation determined that the two revolving funds were no longer needed and closed the funds. Probation management needs to provide appropriate oversight to ensure the Department can account for all its revolving fund monies.

Recommendations

Probation management:

- 13. Identify and resolve revolving fund shortages timely, and immediately report shortages to the Auditor-Controller's Office of County Investigations.**
- 14. Improve controls over the revolving fund replenishment process to ensure replenishment monies are properly safeguarded and used to replenish revolving funds.**
- 15. Ensure the Department's internal revolving fund sub-assignment listing reflects the correct amount assigned to each location, and ensure the total of the sub-assignments agrees with the amount assigned to the Department per eCAPS.**
- 16. Increase the level of management oversight over revolving funds to ensure the Department can account for all its revolving fund monies.**

Statement of Responsibility

CFM Section 1.6.3 requires departments to have fund custodians sign a statement of responsibility form for each revolving fund assignment and sub-assignment annually, or whenever the fund custodian changes. While responsibility for each revolving fund

assignment and sub-assignment must be vested in only one person, an alternate fund custodian should have controlled access in case of absence or emergency. The fund custodian must not have any other cash handling responsibilities, such as the ability to authorize revolving fund disbursements.

We noted that Probation did not have statement of responsibility forms for the two sub-assignments within the Wards Revolving Cash Trust Fund. For the Main Revolving Fund, eight (18%) of the 45 statements for the fund's sub-assignments did not identify an alternate fund custodian. In addition, six (13%) of the 45 statements indicated that the primary or alternate fund custodians can also authorize revolving fund disbursements.

Recommendations

Probation management:

- 17. Obtain statements of responsibility for each revolving fund assignment annually, or whenever a fund custodian changes, specifying the assigned amount, and the primary and secondary fund custodians' names.**
- 18. Ensure fund custodians are not responsible for authorizing revolving fund disbursements.**

Revolving Checking Accounts and Petty Cash Funds

Revolving funds may be used for emergency, required prepayment, or immediate payment resulting in cost savings. Checking accounts may also be used in conjunction with revolving funds and revolving cash trust funds to disburse funds (e.g., petty cash purchases) or make cash refunds. In addition, revolving funds may be assigned to various locations as petty cash funds for small departmental purchases of up to \$500 in a single transaction. Revolving fund purchases from \$501 up to a maximum of \$1,000 must be paid using checks. As noted above, Probation has three checking accounts and over 40 petty cash funds assigned to various locations. Probation uses two checking accounts for petty cash purchases and the other to return personal money to minors. We reviewed Probation's controls over the three checking accounts and four of the petty cash funds, one of which did not have any activity during the year.

We reviewed 30 transactions, totaling \$8,944, five each from the three checking accounts and from the three petty cash funds reviewed that had activity during the year, and noted the following:

- **Exceeding revolving fund purchase limits** – Per CFM Sections 4.6.2 and 4.6.4, the maximum amount for any single revolving fund transaction is \$1,000, and purchases must not be split to keep within the limit. We noted that three (10%) of the 30 transactions reviewed, totaling \$3,215, exceeded \$1,000. For one of the

three transactions, Probation issued a check for over \$1,000, even though the check stock specified that the check was not good for over \$1,000. For the other two transactions, Probation staff split the purchases to keep within the \$1,000 limit.

- **Insufficient justification for using revolving funds** – CFM Section 4.6.4 requires departments to document reasons for using revolving funds instead of eCAPS to pay for purchases over \$25. However, for nine (30%) of the 30 transactions reviewed, totaling \$567, Probation did not document justifications for using revolving funds to pay for the purchases. Although the purchases appear to be an appropriate use of revolving funds, Probation should ensure staff document the reasons for using revolving funds, where appropriate.
- **Insufficient documentation to support revolving fund expenditures** - We also noted that Probation did not obtain a vendor receipt to support one (3%) of the 30 transactions, totaling \$202, but had a purchase request form that was approved by a Director. In addition, one payment for a parking citation should have been approved by the Administrative Deputy or higher, but was not.
- **Supporting documentation not marked “paid”** – CFM Section 4.6.8 requires departments to mark documentation supporting revolving fund expenditures “paid” to prevent subsequent reuse. We noted that 16 (53%) of the 30 transactions reviewed were not marked “paid”.
- **Required statement not printed on check stock** – Probation’s check stock includes two signature lines. However, the checks do not include the printed statement that “amounts over \$500 require two signatures”, as required by CFM Section 4.6.4.

Recommendations

Probation management:

19. **Ensure revolving fund purchases are within the dollar limits specified in the County Fiscal Manual, and that staff do not split purchases to circumvent the limits.**
20. **Ensure staff document the reasons for using revolving funds to pay for purchases, as required by the County Fiscal Manual.**
21. **Obtain vendor receipts/invoices and proper approvals for revolving fund purchases.**
22. **Ensure revolving fund expenditure documentation is marked “paid” to prevent reuse.**

- 23. Ensure check stock states that amounts over \$500 require two signatures.**

Petty Cash Fund Reconciliations

CFM Section 1.6.3 requires fund custodians to reconcile revolving funds to the assigned amount each day they are used, and to keep revolving funds clear of shortages and overages. Probation regularly reconciled the three petty cash funds reviewed that had activity during the year. However, for one (33%) of the three petty cash funds, although there was a \$507 shortage and a minor overage in the fund, the reconciliation documents indicated there was no overage or shortage. In addition, we noted that the shortage (also noted in the Revolving Fund Shortages section of this report) and the overage had both existed for several years. Probation should ensure that staff properly document petty cash fund reconciliations to identify all shortages and/or overages, and resolve shortages and overages promptly.

Recommendation

- 24. Probation management ensure staff properly document petty cash fund reconciliations to identify all unresolved shortages and overages, and resolve the shortages and overages promptly.**

Wards Revolving Cash Trust Fund

The Wards Revolving Cash Trust Fund, which has an assigned balance of \$5,000, was established to expedite the return of personal money to minors. Most of the revolving fund monies are deposited in a checking account, and \$500 is in a petty cash fund at Probation's headquarters (Wards petty cash fund). We noted that Probation has not used the Wards petty cash fund for several years. Per Probation management, the Department generally issues checks to return money to minors. Probation should evaluate the need for the Wards petty cash fund, and reduce or eliminate the fund, if appropriate. We also noted that Probation inappropriately removed \$100 from the Wards petty cash fund to use as a change fund for a different purpose. Probation should ensure staff use revolving cash trust funds only for the established purpose.

Subsequent to our review, Probation informed us that they will close the Wards Revolving Cash Trust Fund, and instead use eCAPS to process warrants to return personal money to minors.

Recommendations

Probation management:

- 25. Evaluate the need for the petty cash portion of the Wards Revolving Cash Trust Fund, and reduce or eliminate the petty cash fund, if appropriate.**

- 26. Ensure staff use revolving cash trust funds only for the established purpose.**

Petty Cash Counts

CFM Section 1.6.3 requires departments to conduct surprise cash counts of revolving funds quarterly, or annually if the fund balance is less than \$200. The count should be documented and performed by employees with no cash handling responsibilities over the fund being counted.

We noted that Probation did not perform any surprise cash counts for two of the four petty cash funds reviewed. For the other two petty cash funds, Probation only performed annual cash counts even though the assigned balance was more than \$200. We also noted that the fund custodians did not sign or date the cash count documents to indicate agreement with the count result.

Recommendations

Probation management:

- 27. Ensure staff conduct quarterly surprise cash counts for all revolving funds with assigned amounts over \$200.**
- 28. Require fund custodians to sign and date cash count documents to indicate agreement with the count.**

Petty Cash Fund Assignments

CFM Section 1.6.4 states that the amount assigned to petty cash funds should equal approximately one month's expenses. We noted that the monthly expenses for three of the four petty cash funds reviewed were generally less than the assigned amount. For example, one petty cash fund was only replenished three times during the year, which may be an indication that the fund assignment is excessive for Probation's needs. In addition, the fourth petty cash fund was not used at all during the year reviewed. Probation management should evaluate the amount of petty cash fund assignments and reduce fund assignments, where appropriate.

Recommendation

- 29. Probation management evaluate the amount of petty cash fund assignments and reduce fund assignments, where appropriate.**

Trust Funds

As noted above, Probation has 14 trust funds with a total balance of approximately \$12.8 million as of June 30, 2013. The Department primarily uses its trust funds to

temporarily hold payments from clients for fines, returned warrants for restitutions, detained minors' personal monies, grant funds, and donations.

Unclaimed Funds

CFM Section 2.6.2 requires departments to refer unclaimed funds to TTC for disposition. Unclaimed funds consist of monies that have remained unclaimed in a department's custody for three or more years. For example, unclaimed funds may include monies that a department is safekeeping on behalf of a client and is unable to return to the client for various reasons, such as inability to locate the client. Unclaimed funds may also be payments that a department is unable to apply to an appropriate account due to insufficient information.

Probation indicated that they have unclaimed funds totaling \$763,000 in two of their trust funds, some of which have been on deposit for more than ten years. However, Probation has not referred the unclaimed funds to TTC as the CFM requires. Probation staff indicated that a portion of the \$763,000 may be minors' personal money that the Department is safekeeping for minors who are still detained. However, the majority of the monies are returned restitution payments or minors' personal money for which Probation was unable to locate the payee. Probation should review the unclaimed funds to determine if they can identify the appropriate disposition, and refer any remaining unclaimed funds to TTC.

Recommendation

- 30. Probation management review unclaimed funds in their trust funds to determine if they can identify the appropriate disposition, and refer any remaining unclaimed funds to the Treasurer and Tax Collector.**

Reconciliations

CFM Section 2.3.0 requires departments to maintain detailed subsidiary ledgers for each trust fund, and reconcile these records to eCAPS monthly. The reconciliations must identify reconciling items, and departments must investigate and resolve all outstanding items promptly. CFM also requires that trust fund reconciliations be reviewed and approved by a supervisor with no other trust responsibilities.

We reviewed reconciliations for six trust funds with balances totaling \$6.8 million as of June 30, 2012, and noted that Probation did not maintain subsidiary ledgers independent of eCAPS for three trust funds with balances totaling \$5.6 million. Probation's reconciliations were limited to comparing eCAPS reports to hard copy documents. This reconciliation does not identify overages, shortages, and/or data entry errors. In addition, for one of the three trust funds, Probation did not always document their reconciliations to specify the sources of numbers used for the reconciliations, date prepared/approved, or the approver's signature.

For one of the remaining three trust funds, we noted the amount Probation used for the book balance on the reconciliation varied from the balance per Probation's subsidiary ledgers by \$6,155. As a result, it appears there was a shortage in eCAPS that was not shown on the reconciliation, and not resolved. Probation should research the variance to determine if there is an actual shortage in the trust fund, and resolve the issue. Probation should also ensure they use the book balance to perform reconciliations. We also noted that there was no evidence of supervisory review on the reconciliation. Probation should ensure that a supervisor reviews and approves trust fund reconciliations.

We also noted that, for the six trust funds reviewed, nine (13%) of the 68 reconciliations were approved an average of 69 days after the month end. To ensure errors are detected and resolved timely, Probation should ensure staff prepare and approve reconciliations within 30 days of the month end.

Recommendations

Probation management:

- 31. Maintain subsidiary ledgers independent of eCAPS for all trust funds, and reconcile the balance per the subsidiary records to eCAPS.**
- 32. Ensure trust fund reconciliations are properly documented to identify any variances/reconciling items, the date prepared/approved, and the approver's signature.**
- 33. Ensure staff research and resolve all trust fund reconciling items timely.**
- 34. Ensure staff prepare and approve trust fund reconciliations timely.**

Trust Fund Documentation

CFM Section 2.1.3 requires departments to maintain historical documentation of the purpose and authority of each trust fund, to ensure trust funds are used as intended. In addition, departments should close trust funds and disposition all fund balances when the need for the trust fund no longer exists.

We noted that Probation did not have the required documentation for 11 (73%) of their 15 trust funds. In addition, for three (27%) of the 11 trust funds, totaling \$21,364, Probation was not aware of the purpose of the trust funds due to the lack of historical documentation. Probation indicated that the trust funds have not been used in several years and are no longer needed.

Probation developed a list of the Department's trust funds with a general description of each fund's purpose and use when we inquired about the Department's trust funds.

While the list provides an overview of how the trust funds are supposed to be used, the Department does not have a formal process for reviewing and approving the purpose of each trust fund, or to ensure that trust funds are used for their established purpose.

Recommendations

Probation management:

- 35. Maintain historical documentation indicating the purpose and authority of each trust fund, and develop a formal process for reviewing and approving the purpose of each trust fund.**
- 36. Evaluate the need for trust funds, and close trust funds that are no longer needed and disposition all fund balances.**

Commitments and Accounts Payable Encumbrances

Departments establish commitments to reserve budgeted funds for goods and services that were ordered or contracted for but not received by the end of the FY. Departments also establish accounts payable for goods and services that were received, but were not paid for, by the end of the FY. While accounts payable are automatically cancelled at the end of the subsequent year, commitments are carried forward to future years. Departments should review their commitments and accounts payable to ensure they are accurate, and cancel any commitments and accounts payable that are no longer needed. Outstanding commitments and accounts payable reduce the County's available fund balance.

Commitments

At the beginning of FY 2011-12, Probation had approximately \$12.2 million in commitments. We reviewed ten commitments, totaling \$2 million, and noted that seven (70%), totaling \$1.6 million, should have been cancelled because they were no longer needed. We also noted that Probation should have reduced one (10%) commitment by \$135,000 because the Department had already paid for the goods.

We also reviewed ten payments charged against other commitments, and noted that five (50%) payments, totaling \$256,000, were for goods and services received before the end of the prior FY. Probation should have established accounts payable, not commitments, for these purchases. As a result, Probation understated prior year expenditures, and overstated subsequent year expenditures. We also noted that for one of the five payments, Probation did not have receiving reports indicating when they received some of the items on the vendor's invoice, totaling \$29,000. Therefore, we were unable to determine if this portion of the payment was properly paid for using commitments, or if Probation should have established accounts payable.

Accounts Payable

Probation established an average of \$454,000 in accounts payable at the end of FYs 2008-09, 2009-10, and 2010-11, of which an average of approximately \$194,000 (45%) per year was never used. We reviewed ten of the \$270,500 in payables that Probation established at the end of FY 2010-11, and noted two (20%) payables, totaling \$12,000, should not have been established because Probation did not receive the goods until the subsequent FY.

Recommendations

Probation management:

- 37. Ensure staff establish and cancel commitments and accounts payable as required by the County Fiscal Manual, and monitor for compliance.**
- 38. Ensure staff retain receiving reports that show when goods or services were received.**

Internal Control Certification Program

The A-C developed the Internal Control Certification Program (ICCP) to assist County departments in evaluating and improving internal controls over fiscal operations. Departments must review and evaluate controls in key fiscal areas annually, and certify that proper controls are in place or note that action is being taken to correct any deficiencies or weaknesses noted.

Some of the issues we noted in Probation's cash, trust funds, commitments, and accounts payable operations should have been identified when Probation completed their ICCP. However, the Department's ICCP did not report the weaknesses or deficiencies we noted. Probation management should ensure that the ICCP questionnaires are completed accurately, all internal control weaknesses are identified, and an improvement plan is developed to address each weakness.

Recommendation

- 39. Probation management ensure the Internal Control Certification Plan is completed accurately, all internal control weaknesses are identified, and an improvement plan is developed to address each weakness.**



COUNTY OF LOS ANGELES PROBATION DEPARTMENT

9150 EAST IMPERIAL HIGHWAY – DOWNEY, CALIFORNIA 90242
(562) 940-2501



JERRY E. POWERS
Chief Probation Officer

January 15, 2014

TO: Wendy L. Watanabe
Auditor Controller

FROM: Jerry E. Powers
Chief Probation Officer

A handwritten signature, likely of Jerry E. Powers, consisting of stylized initials and a surname.

SUBJECT: PROBATION DEPARTMENT– REVIEW OF CASH HANDLING, TRUST FUNDS, ACCOUNTS PAYABLE AND COMMITMENTS

Attached is the Probation Department's response to the recommendations contained in the Auditor-Controller's review of the Department's Cash Handling, Trust Funds, Accounts Payable and Commitments. The Department is in general agreement with the findings and has either implemented or initiated corrective actions to address each of the recommendations.

We also would like to thank your project team for the professionalism in which your staff conducted their review.

Please let me know if you have any questions or require additional information. You may also have your staff contact Eric Sink, Departmental Finance Manager III at (562) 940-3702.

JEP:ES:ncl

Attachment

PROBATION DEPARTMENT

RESPONSE TO AUDITOR-CONTROLLER'S DRAFT AUDIT REPORT
REVIEW OF CASH HANDLING, TRUST FUNDS, ACCOUNTS PAYABLE
AND COMMITMENTS

CASH HANDLING

Controls Over Payments Received

Recommendation 1:

Require staff that receive payment envelopes directly from clients to issue receipts to acknowledge that the envelopes were received.

Response:

The Department will remind staff of the need to issue receipts when receiving a payment envelope from a probationer.

Recommendation 2:

Develop a mechanism to ensure all payment envelopes received are accounted for and forwarded to the Treasurer and Tax Collector for processing.

Response:

The Department will establish controls regarding the counting, logging and tracking of payment envelopes that are forwarded to the Treasurer Tax Collector.

Recommendation 3:

Require two employees to retrieve payment envelopes from the locked boxes and kiosks, and to record the number of envelopes retrieved.

Response:

The Department will establish controls and train staff to collect, count and log payment envelopes for processing, as well as create a transmittal process. The process will include the requirement of two employees to account for and forward payment envelopes to the Treasurer Tax Collector.

Recommendation 4:

Ensure collections are stored in a secure area at all times and restrict access to collections to as few individuals as needed.

Response:

The Department will review and update current procedures and Directives and make the necessary changes, as appropriate.

Minors' Personal Money

Recommendation 5:

Ensure minors' personal monies are deposited promptly.

Response:

The Department will remind staff to ensure minor's personal monies are deposited in a timely manner.

Recommendation 6:

Require staff to reconcile manual receipt books issued to staff to ensure that all receipts are accounted for, and require supervisors to review/initial voided receipts and include a note as to why the receipt was voided.

Response:

The Department will implement controls and train staff to comply with the recommendation.

Minors Intake Process

Recommendation 7:

Probation management consider requiring two staff to collect minors' personal property during the intake process.

Response:

The Department will consider the recommendation, and as staffing levels permit, will have two staff collect minors' personal property during the intake process.

DONATIONS

Potential Conflict of Interest

Recommendation 8:

Probation management consult with County Counsel to determine if the Department can continue to accept donations intended for staff from an attorney who represents minors under the Department's care, and if so, whether Probation needs to take steps to avoid a real or perceived conflict of interest.

Response:

The Department will work with County Counsel to determine proper disposition.

Receipts for Donations

Recommendation 9:

Ensure staff issue departmental receipts for donations received in person, and require staff to remind donors to address donation checks to the Department.

Response:

The Department will ensure staff issue receipts for donations received in person and will request that donors address donation checks to the Department.

Recommendation 10:

Obtain proper written documentation from donors for any gifts intended for staff use.

Response:

The Department will provide instructions to staff to obtain proper written documentation from donors for any gifts intended for staff.

Reporting Donations

Recommendation 11:

Ensure the Department reports all donations received, regardless of the amount or intended beneficiary, to the Executive Officer of the Board of Supervisors.

Response:

The Department will remind staff that donations received are to be referred to Fiscal Services Section to ensure they are reported to the Executive Officer of the Board of Supervisors on a timely basis.

Recommendation 12:

Require staff at each location to maintain a log of all donations and gifts received at that location.

Response:

The Department will maintain a log of all donations and gifts received at each location.

REVOLVING FUNDS & REVOLVING CASH TRUST FUNDS

Revolving Fund Shortages

Recommendation 13:

Identify and resolve revolving fund shortages timely, and immediately report shortages to the Auditor-Controller's Office of County Investigations.

Response:

The Department will ensure any revolving fund shortage is identified and resolved in a timely manner and reported to the Auditor-Controller's Office of County Investigations immediately.

Recommendation 14:

Improve controls over the revolving fund replenishment process to ensure replenishment monies are properly safeguarded and used to replenish revolving funds.

Response:

The Department has implemented additional controls where the Fiscal Services Section will notify the Fund Custodians via email when a replenish warrant has been issued to the Director or Office Head. This will ensure Fund Custodians are aware that a warrant was issued to replenish the fund and expect to receive the funds after Fiscal Services' notification.

Recommendation 15:

Ensure the Department's internal revolving fund sub-assignment listing reflects the correct amount assigned to each location, and ensure the total of the sub-assignments agrees with the amount assigned to the Department per eCAPS.

Response:

Fiscal Services staff was trained on procedures to ensure the internal revolving fund sub-assignment listing reflects the correct amount assigned to each location and the total of the sub-agreements agrees with the amount assigned to the Department per eCAPS.

Recommendation 16:

Increase the level of management oversight over revolving funds to ensure the Department can account for all its revolving fund monies.

Response:

The Department will ensure management is aware of the policy and procedures to ensure revolving fund monies are accounted for and comply with the County Fiscal Manual.

Statement of Responsibility

Recommendation 17:

Obtain statements of responsibility for each revolving fund assignment annually, or whenever a fund custodian changes, specifying the assigned amount, and the primary and secondary fund custodians' names.

Response:

The Department will ensure that each location assigned with a revolving fund provides Fiscal Services Section the Statements of Responsibility annually or whenever there is a change of fund custodian, assigned amount, and/or approving authority.

Recommendation 18:

Ensure fund custodians are not responsible for authorizing revolving fund disbursements.

Response:

The Department will ensure that each location assigned with a revolving fund assignment has a separate Fund Custodian and Approving Authority.

Revolving Checking Accounts and Petty Cash Funds

Recommendation 19:

Ensure revolving fund purchases are within the dollar limits specified in the County Fiscal Manual, and that staff do not split purchases to circumvent the limits.

Response:

Fiscal Services staff was trained to ensure revolving fund purchases are within the dollar limits and do not split purchases to circumvent the limits.

Recommendation 20:

Ensure staff document the reasons for using revolving funds to pay for purchases, as required by the County Fiscal Manual.

Response:

The Department will ensure that all purchases made with revolving funds have a written explanation as required by the County Fiscal Manual.

Recommendation 21:

Obtain vendor receipts/invoices and proper approvals for revolving fund purchases.

Response:

The Department will ensure that all revolving fund purchases have vendor receipts/invoices and proper approval of the purchases.

Recommendation 22:

Ensure revolving fund expenditure documentation is marked "paid" to prevent reuse.

Response:

Fiscal Services staff was trained to ensure that all revolving fund expenditure documentation is marked "paid."

Recommendation 23:

Ensure check stock states that amounts over \$500 require two signatures.

Response:

Fiscal Services Section required all manual checks, regardless of the amount, to have two signatures. However, in order to comply with the recommendation new checks were ordered to ensure the face of the check indicated "Amounts over \$500.00 require two signatures."

Petty Cash Fund Reconciliations

Recommendation 24:

Probation management ensure staff properly document petty cash fund reconciliations to identify all unresolved shortages and overages, and resolve the shortages and overages promptly.

Response:

The Department will ensure to properly document the petty cash fund reconciliations and identify any shortage or overage. The Department will comply with the County Fiscal Manual when any shortages and overages arise.

Wards Revolving Cash Trust Fund

Recommendation 25:

Evaluate the need for the petty cash portion of the Wards Revolving Cash Trust Fund, and reduce or eliminate the petty cash fund, if appropriate.

Response:

Fiscal Services Section is in the process of working with the Auditor Controller and Treasurer and Tax Collector in closing the Wards Revolving Cash Trust Fund and the checking account.

Recommendation 26:

Ensure staff use revolving cash trust funds only for the established purpose.

Response:

Fiscal Services staff was trained on procedures to ensure the usage of the revolving cash trust funds are for the intended purpose. In addition, Fiscal Services Section established a new petty cash of \$100 for the Cashiering Unit to use as a change fund and returned the fund that was inappropriately used to Wards Petty Cash Fund.

Petty Cash Counts

Recommendation 27:

Ensure staff conduct quarterly surprise cash counts for all revolving funds with assigned amounts over \$200.

Response:

The Department will ensure quarterly surprise cash counts are conducted and documented.

Recommendation 28:

Require fund custodians to sign and date cash count documents to indicate agreement with the count.

Response:

The Department will ensure that fund custodians sign and date the cash count documents to indicate agreement with the results of the count conducted.

Petty Cash Fund Assignments

Recommendation 29:

Probation management evaluate the amount of petty cash fund assignments and reduce fund assignments, where appropriate.

Response:

The Department will evaluate the frequency and usage of the petty cash on a monthly basis and determine if the assigned petty cash funds need to be reduced or closed.

TRUST FUNDS

Unclaimed Funds

Recommendation 30:

Probation management review unclaimed funds in their trust funds to determine if they can identify the appropriate disposition, and refer any remaining unclaimed funds to the Treasurer and Tax Collector.

Response:

Fiscal Services Section and Collection Unit will review the unclaimed funds in the trust accounts to identify the appropriate disposition and refer any remaining unclaimed funds to the Treasurer and Tax Collector.

Reconciliations

Recommendation 31:

Maintain subsidiary ledgers independent of eCAPS for all trust funds, and reconcile the balance per the subsidiary records to eCAPS.

Response:

Fiscal Services staff was trained on the procedures to use subsidiary ledgers to reconcile the trust fund balance to eCAPS.

Recommendation 32:

Ensure trust fund reconciliations are properly documented to identify any variances/reconciling items, the date prepared/approved, and the approver's signature.

Response:

Fiscal Services Section will ensure that all trust fund reconciliations are properly documented to identify any variance, date prepared and approved, and approver's signature

Recommendation 33:

Ensure staff research and resolve all trust fund reconciling items timely.

Response:

Fiscal Services staff was trained on procedures to research and resolve discrepancies in a timely manner.

Recommendation 34:

Ensure staff prepare and approve trust fund reconciliations timely.

Response:

Fiscal Services Section was trained on procedures to ensure that trust reconciliations are prepared and approved in a timely manner.

Trust Fund Documentation

Recommendation 35:

Maintain historical documentation indicating the purpose and authority of each trust fund, and develop a formal process for reviewing and approving the purpose of each trust fund.

Response:

Fiscal Services Section will ensure that historical documentation is maintained indicating the purpose and authority of each trust fund. Fiscal Services Section had developed a listing of all trust funds purpose and will implement controls for a formal process for management review and approval of the purpose of each trust fund.

Recommendation 36:

Evaluate the need for trust funds, and close trust funds that are no longer needed and disposition all fund balances.

Response:

Fiscal Services Section will evaluate the need of the trust accounts and fund balances. If any are deemed no longer needed, the department will work with the Auditor Controller to close such accounts.

COMMITMENTS AND ACCOUNTS PAYABLE ENCUMBRANCES

Accounts Payable

Recommendation 37:

Ensure staff establish and cancel commitments and accounts payable as required by the County Fiscal Manual, and monitor for compliance.

Response:

Fiscal Services Section will ensure proper procedures for establishing and cancelling commitments and accounts payable as required by the County Fiscal Manual and Auditor-Controller year-end closing instructions.

Recommendation 38:

Ensure staff retain receiving reports that show when goods or services were received.

Response:

Fiscal Services staff was trained on procedures to ensure receiving reports are retained to certify that goods/services were received.

INTERNAL CONTROL CERTIFICATION PROGRAM

Recommendation 39:

Probation management ensures the ICCP is completed accurately, all internal control weaknesses are identified, and an improvement plan is developed to address each weakness.

Response:

The Department will ensure the ICCP is completed accurately, identifying any control weaknesses and improvement plans to ensure weaknesses have been corrected.